

DANVILLE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2012

DANVILLE COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2012

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-13
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements	
Statement of Net Assets	A 15-16
Statement of Activities	B 17-18
Governmental Fund Financial Statements	
Balance Sheet	C 19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 20
Statement of Revenues, Expenditures and Changes in Fund Balances	E 21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
Proprietary Fund Financial Statements	
Statement of Net Assets	G 24
Statement of Revenues, Expenses and Changes in Net Assets	H 25
Statement of Cash Flows	I 26
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	J 27
Statement of Changes in Fiduciary Net Assets	K 28
Notes to Financial Statements	29-45
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds	47
Notes to Required Supplementary Information - Budgetary Reporting	48
Schedule of Funding Progress for the Retiree Health Plan	49

DANVILLE COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2012

Supplementary Information	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds		
Combining Balance Sheet	1	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	53-54
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	55
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		56-57
Schedule of Findings		58-61
Audit Staff		62

DANVILLE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2011 Election)		
Sandra Dockendorff	Board President	2013
Matt Parrott	Vice President	2013
Allan Luers	Board Member	2011
Brian Bauer	Board Member	2011
Scott Becker	Board Member	2011

**Board of Education
(After September 2011 Election)**

Sandra Dockendorff	Board President	2013
Matt Parrott	Vice President	2013
Allan Luers	Board Member	2015
Brian Bauer	Board Member	2015
Scott Becker	Board Member	2015

School Officials

Gary DeLacy	Superintendent	2012
Nancy House	Board Secretary/Treasurer	Indefinite
Lane & Waterman LLP	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Danville Community School District, Danville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Danville Community School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated March 8, 2013 on my consideration of Danville Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Danville Community School District's basic financial statements. Supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the nine years in the period ended June 30, 2012, appearing in Schedule 4, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC

March 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Danville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,546,591 in fiscal 2011 to \$5,778,990 in fiscal 2012, and General Fund expenditures increased from \$5,129,971 in fiscal 2011 to \$5,459,418 in fiscal 2012. The District's General Fund balance increased from \$336,903 in fiscal 2011 to \$656,975 in fiscal 2012, a 95% increase.
- The increase in General Fund revenues was attributable the District receiving increased tuition and state funding. The increase in expenditures was due primarily the negotiated salary and benefits, and technology purchases. The General Fund balance increase was the result of the increase in revenues being more than sufficient to cover the increase in expenditures for fiscal 2012.
- The District's solvency ratio (unassigned fund balance/general fund revenues) increased from 1.98% for fiscal 2011 to 6.95% for fiscal 2012. The State School Budget Review Committee recommends a solvency ratio between 5%-10%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Danville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Danville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Danville Community School District acts solely as a custodian for the benefit of those outside of District government.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

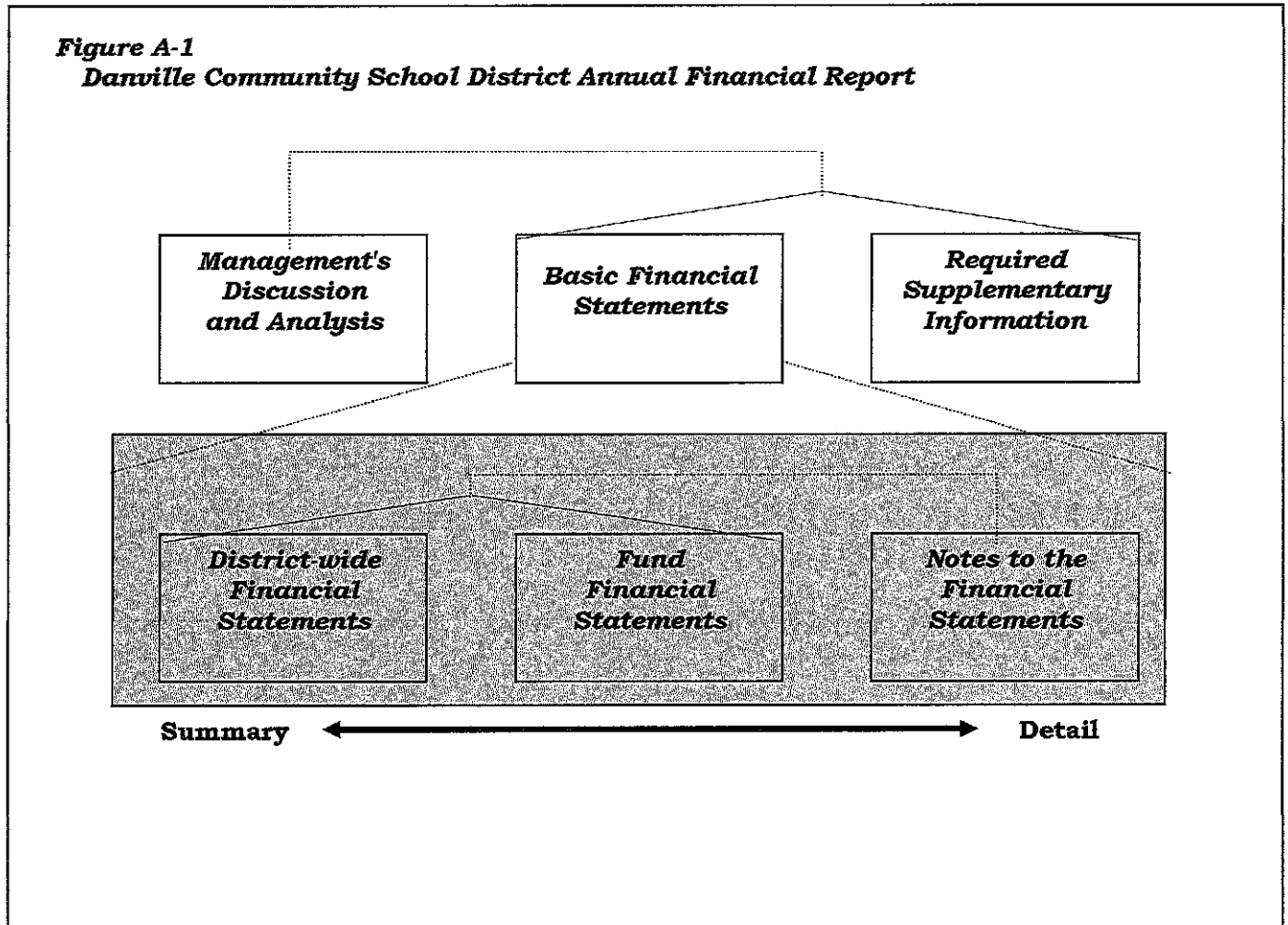


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool operation	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program and preschool program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary fund:* The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Current and other assets	\$ 3,332,230	\$3,075,771	\$153,806	\$115,797	\$3,486,036	\$3,191,568	9.23%
Capital assets	<u>5,856,198</u>	<u>5,980,307</u>	<u>184,184</u>	<u>210,353</u>	<u>6,040,382</u>	<u>6,190,660</u>	-2.43%
Total assets	<u>9,188,428</u>	<u>9,056,078</u>	<u>337,990</u>	<u>326,150</u>	<u>9,526,418</u>	<u>9,382,228</u>	1.54%
Long-term liabilities	2,128,111	2,375,205	-	-	2,128,111	2,375,205	-10.40%
Other liabilities	<u>2,240,214</u>	<u>2,199,577</u>	<u>137</u>	<u>6,038</u>	<u>2,240,351</u>	<u>2,205,615</u>	1.57%
Total liabilities	<u>4,368,325</u>	<u>4,574,782</u>	<u>137</u>	<u>6,038</u>	<u>4,368,462</u>	<u>4,580,820</u>	-4.64%
Net assets							
Invested in capital assets,							
net of related debt	4,030,198	3,869,307	184,184	210,353	4,214,382	4,079,660	3.30%
Restricted	462,214	487,434	-	-	462,214	487,434	-5.17%
Unrestricted	<u>327,691</u>	<u>124,555</u>	<u>153,669</u>	<u>109,759</u>	<u>481,360</u>	<u>234,314</u>	105.43%
Total net assets	<u>\$ 4,820,103</u>	<u>\$4,481,296</u>	<u>\$337,853</u>	<u>\$320,112</u>	<u>\$5,157,956</u>	<u>\$4,801,408</u>	7.43%

The District's combined net assets increased by approximately 7%, or \$356,548 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$25,220, or approximately 5% from the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$247,046, or approximately 105%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 1,361,092	\$ 1,246,059	\$ 260,415	\$ 237,368	\$ 1,621,507	\$ 1,483,427	9.31%
Operating grants	1,016,127	864,218	152,300	153,518	1,168,427	1,017,736	14.81%
General revenues							
Property tax	1,818,965	1,913,566	-	-	1,818,965	1,913,566	-4.94%
Statewide sales, services and use tax	396,686	387,741	-	-	396,686	387,741	2.31%
Unrestricted state grants	2,080,579	2,026,553	-	-	2,080,579	2,026,553	2.67%
Contributions and donations	-	3,741	-	-	-	3,741	-100.00%
Unrestricted investment earnings	8,076	15,699	591	2,032	8,667	17,731	-51.12%
Other	642	34,106	-	-	642	34,106	-98.12%
Special item - gain on sale of assets	-	90,162	-	-	-	90,162	-100.00%
Total revenues, special item & transfers	<u>6,682,167</u>	<u>6,581,845</u>	<u>413,306</u>	<u>392,918</u>	<u>7,095,473</u>	<u>6,974,763</u>	1.73%
Program expenses							
Governmental activities							
Instruction	4,149,843	3,747,917	-	-	4,149,843	3,747,917	10.72%
Support services	1,633,443	1,525,837	-	-	1,633,443	1,525,837	7.05%
Non-instructional programs	2,493	2,306	395,565	406,100	398,058	408,406	-2.53%
Other expenses	<u>557,581</u>	<u>448,539</u>	<u>-</u>	<u>-</u>	<u>557,581</u>	<u>448,539</u>	24.31%
Total expenses	<u>6,343,360</u>	<u>5,724,599</u>	<u>395,565</u>	<u>406,100</u>	<u>6,738,925</u>	<u>6,130,699</u>	9.92%
Change in net assets	338,807	857,246	17,741	(13,182)	356,548	844,064	57.76%
Net assets, beginning of year	<u>4,481,296</u>	<u>3,624,050</u>	<u>320,112</u>	<u>333,294</u>	<u>4,801,408</u>	<u>3,957,344</u>	21.33%
Net assets, end of year	<u>\$ 4,820,103</u>	<u>\$ 4,481,296</u>	<u>\$ 337,853</u>	<u>\$ 320,112</u>	<u>\$ 5,157,956</u>	<u>\$ 4,801,408</u>	7.43%

In fiscal 2012, property tax and unrestricted state grants account for 58% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$7,095,473 of which \$6,682,167 was for governmental activities and \$413,306 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2% increase in revenues and a 10% increase in expenses

Governmental Activities

Revenues for governmental activities were \$6,682,167 and expenses were \$6,343,360 for the year ended June 30, 2012. The increase in revenues was attributable the District receiving increased local and state sources. The increase in expenditures was due primarily to a increase in the Instruction, Support Services, and Other Expenses functions.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-2012	2012	2011	Change 2011-2012
Instruction	\$ 4,149,843	\$3,747,917	10.7%	\$ 1,982,803	\$1,852,590	7.0%
Support services	1,633,443	1,525,837	7.1%	1,598,608	1,503,212	6.3%
Non-instructional programs	2,493	2,306	100.0%	2,493	2,306	8.1%
Other expenses	<u>557,581</u>	<u>448,539</u>	24.3%	<u>382,237</u>	<u>256,214</u>	49.2%
Total expenses	<u>\$ 6,343,360</u>	<u>\$5,724,599</u>	10.8%	<u>\$ 3,966,141</u>	<u>\$3,614,322</u>	9.7%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$1,361,092.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,016,127.
- The net cost of governmental activities was financed with \$2,215,651 in property and other taxes and \$2,080,579 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2012 were \$413,306 representing a 5% increase over the prior year and expenses were \$395,565 a 3% decrease from the prior year. The District's business type activities consist of the School Nutrition Fund and the Preschool/Daycare Fund, which was started in fiscal 2006. Revenues of these activities were comprised of charges for service, federal and state reimbursements, empowerment grant and investment income.

During the year ended June 30, 2012, the District continued to hold steady the labor hours in the Nutrition program.

INDIVIDUAL FUND ANALYSIS

As previously noted, Danville Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$899,323, well above last year's ending fund balances of \$602,078.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of revenues being greater than expenditures.
- The General Fund balance increased from \$336,903 to \$656,975, due in part to increased local and state sources compared to fiscal year 2011.
- The Debt Service Fund balance decreased from \$11,348 to \$3,434, due to the district using fund balance to pay debt obligations in an effort to keep the tax rate the same as last year.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$320,112 at June 30, 2011 to \$337,853 at June 30, 2012, representing an increase of approximately 6%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Danville Community School District amended its annual budget one time by \$973,823 to Refund Revenue Bonds, and for building and grounds improvements in Total Other Expenditures.

The District's revenues were \$124,191 more than budgeted revenues, a variance of 2%. This is due primarily to a reduction in state resources that caused the total revenues to be less than originally anticipated.

Total expenditures were \$259,685 less than budgeted, due primarily to the District's line item spending of less than budget authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$6,040,382, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a decrease of approximately 2% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$307,898.

The original cost of the District's capital assets was \$10,678,218. Governmental funds account for \$10,364,182 with the remainder of \$314,036 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land category. The District's land category totaled \$182,287 at June 30, 2012, compared to \$152,408 reported at June 30, 2011. This increase resulted from Improvements made to the district's water infrastructure.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011- 2012</u>
Land	\$ 182,287	\$ 152,408	\$ -	\$ -	\$ 182,287	\$ 152,408	19.60%
Buildings and improvements	5,224,132	5,353,379	-	-	5,224,132	5,353,379	-2.41%
Improvements other than buildings	67,210	67,771	-	-	67,210	67,771	-0.83%
Furniture and equipment	<u>382,569</u>	<u>406,749</u>	<u>184,184</u>	<u>210,353</u>	<u>566,753</u>	<u>617,102</u>	-8.16%
Totals	<u>\$ 5,856,198</u>	<u>\$ 5,980,307</u>	<u>\$184,184</u>	<u>\$ 210,353</u>	<u>\$ 6,040,382</u>	<u>\$6,190,660</u>	-2.43%

Long-Term Debt

At June 30, 2012, the District had \$2,128,111 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 10% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$5.2 million.

In April 2012, the District issued \$775,000 of general obligation bonds to refund the general obligation bond issue of 2004. On May 1, 2012 the remaining balance of the 2004 issued was called and paid from the proceeds of the refunding general obligation bonds.

Figure A-7

Outstanding Long-term Obligations

	Total District		Total Change
	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
General obligation bonds	\$ 775,000	\$ 930,000	-16.67%
Revenue bonds	1,051,000	1,181,000	-11.01%
Termination benefits	277,943	248,118	12.02%
Net OPEB liability	<u>24,168</u>	<u>16,087</u>	50.23%
Total	<u>\$ 2,128,111</u>	<u>\$ 2,375,205</u>	-10.40%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District will negotiate a new agreement with the Danville Education Association during fiscal 2013. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
 - The 2012/2013 budget includes a cash reserve levy in the amount of \$378,382.
 - Taxable valuation has increased and enrollment is stable.
 - The District has ongoing needs for transportation vehicle replacements.
 - The District received approval for a FEMA Safe Room Grant to build a preschool/daycare addition.
- * The District will monitor the cost of implementing provisions in the Affordable Health Care Act.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy House, District Secretary/Treasurer and Business Manager, Danville Community School District, 419 South Main Street, Danville, Iowa, 52623.

Basic Financial Statements

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

Exhibit A

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 660,190	\$ 148,981	\$ 809,171
Receivables			
Property tax			
Delinquent	13,483	-	13,483
Succeeding year	1,845,811	-	1,845,811
Accounts receivable	1,560	215	1,775
Income surtaxes	196,381	-	196,381
Due from other governments	614,805	-	614,805
Inventories	-	4,610	4,610
Non-depreciable capital assets	182,287	-	182,287
Capital assets, net of accumulated depreciation	<u>5,673,911</u>	<u>184,184</u>	<u>5,858,095</u>
Total assets	<u>9,188,428</u>	<u>337,990</u>	<u>9,526,418</u>
Liabilities			
Accounts payable	87,022	9	87,031
Salaries and benefits payable	303,693	128	303,821
Accrued interest payable	3,688	-	3,688
Deferred revenue			
Succeeding year property tax	1,845,811	-	1,845,811
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	190,000	-	190,000
Revenue bonds payable	135,000	-	135,000
Termination benefits payable	63,673	-	63,673
Portion due after one year			
General obligation bonds payable	585,000	-	585,000
Revenue bonds payable	916,000	-	916,000
Termination benefits payable	214,270	-	214,270
Net OPEB liability	<u>24,168</u>	<u>-</u>	<u>24,168</u>
Total liabilities	<u>4,368,325</u>	<u>137</u>	<u>4,368,462</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$4,030,198	\$ 184,184	\$4,214,382
Restricted for			
Categorical funding	255,413	-	255,413
Student activities	129,300	-	129,300
School infrastructure	63,165	-	63,165
Physical plant and equipment	14,336	-	14,336
Unrestricted	<u>327,691</u>	<u>153,669</u>	<u>481,360</u>
Total net assets	<u>\$4,820,103</u>	<u>\$ 337,853</u>	<u>\$5,157,956</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

Exhibit B

Functions/Programs Governmental activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Business Type	
					Activities	Activities
Instruction						
Regular instruction	\$ 2,681,295	\$ 921,166	\$ 786,570	\$ -	\$ (973,559)	\$ (973,559)
Special instruction	550,537	132,240	34,321	-	(383,976)	(383,976)
Other instruction	918,011	278,287	14,456	-	(625,268)	(625,268)
	4,149,843	1,331,693	835,347	-	(1,982,803)	(1,982,803)
Support services						
Student	86,306	-	-	-	(86,306)	(86,306)
Instructional staff	203,673	29,399	4,422	-	(169,852)	(169,852)
Administration	496,555	-	-	-	(496,555)	(496,555)
Operation and maintenance of plant	547,122	-	-	-	(547,122)	(547,122)
Transportation	299,787	-	1,014	-	(298,773)	(298,773)
	1,633,443	29,399	5,436	-	(1,598,608)	(1,598,608)
	2,493	-	-	-	(2,493)	(2,493)
Non-instructional programs						
Other expenses						
Facilities acquisition	127,292	-	-	-	(127,292)	(127,292)
Long-term debt interest	101,614	-	-	-	(101,614)	(101,614)
AEA flowthrough	175,344	-	175,344	-	-	-
Depreciation (unallocated) *	153,331	-	-	-	(153,331)	(153,331)
	557,581	-	175,344	-	(382,237)	(382,237)
	6,343,360	1,361,092	1,016,127	-	(3,966,141)	(3,966,141)
Total governmental activities						

See notes to financial statements.

Exhibit B

* This amount excludes the depreciation included in the direct expenses of the various programs.

18

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 463,663	\$ 18,164	\$ 178,363	\$ 660,190
Receivables				
Property tax				
Delinquent	12,462	760	261	13,483
Succeeding year	1,599,163	88,640	158,008	1,845,811
Accounts receivable	534	-	1,026	1,560
Income surtax	196,381	-	-	196,381
Due from other governments	549,988	-	64,817	614,805
Total assets	<u>\$2,822,191</u>	<u>\$ 107,564</u>	<u>\$402,475</u>	<u>\$3,332,230</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 65,979	\$ 15,490	\$ 5,553	\$ 87,022
Salaries and benefits payable	303,693	-	-	303,693
Deferred revenue				
Succeeding year property tax	1,599,163	88,640	158,008	1,845,811
Income surtax	196,381	-	-	196,381
Total liabilities	<u>2,165,216</u>	<u>104,130</u>	<u>163,561</u>	<u>2,432,907</u>
Fund balances				
Restricted for				
Student activities	-	-	129,300	129,300
Management levy purposes	-	-	32,113	32,113
School infrastructure	-	-	63,165	63,165
Physical plant and equipment levy	-	-	14,336	14,336
Debt service	-	3,434	-	3,434
Categorical funding	255,413	-	-	255,413
Unassigned	401,562	-	-	401,562
Total fund balances	<u>656,975</u>	<u>3,434</u>	<u>238,914</u>	<u>899,323</u>
Total liabilities and fund balances	<u>\$2,822,191</u>	<u>\$ 107,564</u>	<u>\$402,475</u>	<u>\$3,332,230</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2012

Exhibit D

Total fund balances of governmental funds	\$ 899,323
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**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,856,198
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	196,381
--	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,688)
--	---------

Long-term liabilities, including bonds and notes payable, termination benefits and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,128,111)</u>
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Net assets of governmental activities	<u>\$4,820,103</u>
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DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit E

Revenues	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Local sources				
Local tax	\$1,744,646	\$ 99,651	\$ 561,172	\$2,405,469
Tuition	1,026,355	-		1,026,355
Other	66,227	135	280,228	346,590
State sources	2,692,609	79	5,572	2,698,260
Federal sources	249,153	-	40,818	289,971
Total revenues	<u>5,778,990</u>	<u>99,865</u>	<u>887,790</u>	<u>6,766,645</u>
Expenditures				
Current				
Instruction				
Regular	2,522,451	-	31,021	2,553,472
Special	542,276	-	4,311	546,587
Other	659,752	-	256,893	916,645
	<u>3,724,479</u>	<u>-</u>	<u>292,225</u>	<u>4,016,704</u>
Support services				
Student	85,491	-	221	85,712
Instructional staff	202,203	-	933	203,136
Administration	571,857	-	15,473	587,330
Operation and maintenance of plant	430,497	-	37,992	468,489
Transportation	269,547	-	38,493	308,040
	<u>1,559,595</u>	<u>-</u>	<u>93,112</u>	<u>1,652,707</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>2,493</u>	<u>2,493</u>
Other expenditures				
Facilities acquisition	-	-	232,483	232,483
Long-term debt				
Principal	-	1,060,000	-	1,060,000
Interest and fiscal charges	-	105,209	-	105,209
AEA flowthrough	175,344	-	-	175,344
	<u>175,344</u>	<u>1,165,209</u>	<u>232,483</u>	<u>1,573,036</u>
Total expenditures	<u>5,459,418</u>	<u>1,165,209</u>	<u>620,313</u>	<u>7,244,940</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit E

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 319,572	\$(1,065,344)	\$ 267,477	\$ (478,295)
Other financing sources (uses)				
Sale of equipment and materials	500	-	-	500
Proceeds from issuance of loans	-	775,040	-	775,040
Interfund operating transfers in	-	282,390	-	282,390
Interfund operating transfers (out)	-	-	(282,390)	(282,390)
Total other financing sources (uses)	<u>500</u>	<u>1,057,430</u>	<u>(282,390)</u>	<u>775,540</u>
Net change in fund balances	320,072	(7,914)	(14,913)	297,245
Fund balance, beginning of year	<u>336,903</u>	<u>11,348</u>	<u>253,827</u>	<u>602,078</u>
Fund balance, end of year	<u>\$ 656,975</u>	<u>\$ 3,434</u>	<u>\$ 238,914</u>	<u>\$ 899,323</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2012

Exhibit F

Net change in fund balances - total governmental funds \$ 297,245

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$ 157,620	
Depreciation expense	<u>(281,729)</u>	(124,109)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (85,018)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(775,000)	
Repaid	<u>1,060,000</u>	285,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	(29,825)	
Other postemployment benefits	<u>(8,081)</u>	(37,906)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,595

Change in net assets of governmental activities \$ 338,807

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2012

Exhibit G

	<u>School Nutrition</u>	<u>Nonmajor Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 64,484	\$ 84,497	\$148,981
Accounts receivable	-	215	215
Inventories	4,610	-	4,610
Capital assets, net of accumulated depreciation	184,184	-	184,184
Total assets	<u>253,278</u>	<u>84,712</u>	<u>337,990</u>
Liabilities			
Accounts payable	-	9	9
Salaries and benefits payable	-	128	128
Total liabilities	<u>-</u>	<u>137</u>	<u>137</u>
Net Assets			
Invested in capital assets	184,184	-	184,184
Unrestricted	69,094	84,575	153,669
Total net assets	<u>\$253,278</u>	<u>\$ 84,575</u>	<u>\$337,853</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit H

	<u>School</u> <u>Nutrition</u>	<u>Nonmajor</u> <u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$201,476</u>	<u>\$ 58,939</u>	<u>\$260,415</u>
Operating expenses			
Instruction, regular			
Salaries	-	2,100	2,100
Benefits	-	440	440
Supplies	-	757	757
	<u>-</u>	<u>3,297</u>	<u>3,297</u>
Non-instructional programs			
Food service operations			
Salaries	95,266	-	95,266
Benefits	31,394	-	31,394
Purchased services	9,352	-	9,352
Supplies	195,043	-	195,043
Miscellaneous	75	-	75
Depreciation	26,192	-	26,192
	<u>357,322</u>	<u>-</u>	<u>357,322</u>
Preschool operations			
Salaries	-	29,947	29,947
Benefits	-	4,999	4,999
	<u>-</u>	<u>34,946</u>	<u>34,946</u>
Total operating expenses	<u>357,322</u>	<u>38,243</u>	<u>395,565</u>
Operating income (loss)	<u>(155,846)</u>	<u>20,696</u>	<u>(135,150)</u>
Non-operating revenues			
Interest income	591	-	591
State sources	2,736	31,400	34,136
Federal sources	118,164	-	118,164
Total non-operating revenues	<u>121,491</u>	<u>31,400</u>	<u>152,891</u>
Net income (loss)	<u>(34,355)</u>	<u>52,096</u>	<u>17,741</u>
Net assets, beginning of year	<u>287,633</u>	<u>32,479</u>	<u>320,112</u>
Net assets, end of year	<u>\$253,278</u>	<u>\$ 84,575</u>	<u>\$337,853</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit I

	<u>School Nutrition</u>	<u>Nonmajor Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 201,453	\$ 60,002	\$ 261,455
Cash payments to employees for services	(130,571)	(39,206)	(169,777)
Cash payments to suppliers for goods and services	(188,859)	(1,027)	(189,886)
Net cash provided by (used in) operating activities	<u>(117,977)</u>	<u>19,769</u>	<u>(98,208)</u>
Cash flows from non-capital financing activities			
State grants received	2,736	31,400	34,136
Federal grants received	102,855	-	102,855
Net cash provided by non-capital financing activities	<u>105,591</u>	<u>31,400</u>	<u>136,991</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest on investments	591	-	591
Net increase (decrease) in cash and cash equivalents	(11,795)	51,169	39,374
Cash and cash equivalents, beginning of year	76,279	33,328	109,607
Cash and cash equivalents, end of year	<u>\$ 64,484</u>	<u>\$ 84,497</u>	<u>\$ 148,981</u>

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities

Operating income (loss)	\$(155,846)	\$ 20,696	\$(135,150)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	26,192	-	26,192
Commodities used	15,309	-	15,309
Decrease in accounts receivable	-	1,063	1,063
Decrease in inventory	279	-	279
(Decrease) in accounts payable	-	(270)	(270)
(Decrease) in accrued salaries and benefits	(3,911)	(1,720)	(5,631)
Net cash provided by (used in) operating activities	<u>\$(117,977)</u>	<u>\$ 19,769</u>	<u>\$(98,208)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2012 the District received \$15,309 of federal commodities.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2012

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 9,920
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$ 9,920</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2012

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 162
Deductions	
Instruction, regular	
Scholarships	<u>562</u>
Change in net assets	(400)
Net assets, beginning of year	<u>10,320</u>
Net assets, end of year	<u><u>\$ 9,920</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

Note 1. Summary of Significant Accounting Policies

The Danville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Danville, Iowa, and the agricultural territory in Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Danville Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Danville Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports one major proprietary fund, the School Nutrition Fund. This fund is used to account for the food service operations of the District. The District also reports a nonmajor enterprise fund, the Preschool Fund which accounts for the operation of the District's preschool program.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	\$ 1,000
Improvements other than buildings	\$ 2,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenses for services performed by hourly employees prior to June 30, 2012 and payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2012. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax receivables and income surtaxes not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$14,336 for physical plant and equipment, \$129,300 for student activities and \$63,165 for school infrastructure.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$500,756 pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Credit risk. The investment in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor's Financial Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major governmental		
Statewide Sales, Services and Use Tax	Debt Service	\$ 282,390

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The Statewide Sales, Services and Use Tax Fund transferred money to the Debt Service Fund to make principal and interest payments on long-term debt.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 152,408	\$ 29,879	\$ -	\$ 182,287
Capital assets being depreciated:				
Buildings and improvements	7,578,596	49,426	(29,879)	7,598,143
Improvements other than buildings	322,599	3,976	-	326,575
Furniture and equipment	2,152,959	104,218	-	2,257,177
Total capital assets being depreciated	10,054,154	157,620	(29,879)	10,181,895
Less accumulated depreciation for:				
Buildings and improvements	2,225,217	148,794	-	2,374,011
Improvements other than buildings	254,828	4,537	-	259,365
Furniture and equipment	1,746,210	128,398	-	1,874,608
Total accumulated depreciation	4,226,255	281,729	-	4,507,984
Total capital assets being depreciated, net	5,827,899	(124,109)	(29,879)	5,673,911
Governmental activities capital assets, net	\$ 5,980,307	\$ (94,230)	\$ (29,879)	\$ 5,856,198
<u>Business type activities</u>				
Furniture and equipment	\$ 314,036	\$ -	\$ -	\$ 314,036
Less accumulated depreciation	103,683	26,169	-	129,852
Business type activities capital assets, net	\$ 210,353	\$ (26,169)	\$ -	\$ 184,184

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 65,756
Special	3,135
Support services	
Student support	425
Instructional staff support	345
Administration	2,669
Operation and maintenance of plant	28,917
Transportation	27,151
	128,398
Unallocated depreciation	153,331
Total governmental activities depreciation expense	\$ 281,729

Business type activities

Food services	\$ 26,169
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Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 930,000	\$ 775,000	\$ (930,000)	\$ 775,000	\$ 190,000
Revenue bonds	1,181,000	-	(130,000)	1,051,000	135,000
Termination benefits	248,118	125,450	(95,625)	277,943	63,673
Net OPEB liability	16,087	8,081	-	24,168	-
Totals	<u>\$ 2,375,205</u>	<u>\$ 908,531</u>	<u>\$(1,155,625)</u>	<u>\$ 2,128,111</u>	<u>\$ 388,673</u>

Interest costs incurred and charged to expense on all long-term debt was \$101,614 for the year ended June 30, 2012.

Termination Benefits

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. Eligible employees must be at least fifty-five years of age and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Early retirement benefits are paid in a lump sum payment equal to 15% of the last year's salary. The District also pays 95% of the retiree's medical and dental insurance premium until the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2012 totaled \$95,625 and the District had a total liability of \$277,943 payable to nine individuals at June 30, 2012.

Revenue Bonds

In June 2007 the District issued revenue anticipation bonds in the amount of \$1,800,000 to be used for remodeling and improvements to the kitchen. In August 2007 the District issued \$60,000 in statewide sales, services and use tax revenue bonds to purchase a bus. In March 2010 the District issued \$60,000 in statewide sales, services and use tax revenue bonds to purchase a bus. The District has pledged future statewide sales, services and use tax revenues to repay these bond issues. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 46 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$1,222,698. The District paid the August 2007 and the March 2010 issues off during the year ended June 30, 2011. For the current year, \$178,205 of principal and interest was paid on the bonds and the statewide sales, services and use tax revenues were \$396,686.

The bond resolution does not require the establishment of any specific accounts or reserves. Details of the revenue anticipation bonded indebtedness at June 30, 2012 are as follows:

Year	Bond issue of June 1, 2007			
Ending	Interest			
June 30,	Rates	Interest	Principal	Total
2013	4.100%	\$ 42,923	\$ 135,000	\$ 177,923
2014	4.100%	37,286	140,000	177,286
2015	4.150%	31,425	150,000	181,425
2016	4.200%	25,181	155,000	180,181
2017	4.250%	18,546	160,000	178,546
2018-2019	4.25-4.35%	16,337	311,000	327,337
Totals		<u>\$ 171,698</u>	<u>\$ 1,051,000</u>	<u>\$ 1,222,698</u>

Refunded General Obligation Bonds

On April 4, 2012, the District issued \$775,000 of general obligation bonds to refund the general obligation bond issue of April 1, 2004. On May 1, 2012 the remaining balance of \$930,000 of the 2004 issue was called and paid from the proceeds of the refunding general obligation bonds. This amount is considered to be extinguished and, therefore, excluded from the long-term debt of the District at June 30, 2012. This current refunding was undertaken to reduce total debt service payments over the next four years by \$46,282 and resulted in an economic gain of \$46,978.

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year	Bond Issue of April 1, 2012			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2013	0.45%	\$ 190,000	\$ 5,151	\$ 195,151
2014	0.55%	195,000	3,900	198,900
2015	0.65%	195,000	2,827	197,827
2016	0.80%	195,000	1,560	196,560
Totals		<u>\$ 775,000</u>	<u>\$ 13,438</u>	<u>\$ 788,438</u>

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 5.38%, 4.5% and 4.30% of their annual covered salary and the District was required to contribute 8.07%, 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2012, 2011 and 2010 respectively. Contribution requirements

are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$265,989, \$223,530 and \$202,737, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 68 active, and 3 retired members in the plan. Participants must be age 57 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 8,000
Interest on net OPEB obligation	724
Adjustment to annual required contribution	<u>(643)</u>
Annual OPEB cost	8,081
Contributions made	<u>-</u>
Increase in net OPEB obligation	8,081
Net OPEB obligation beginning of year	<u>16,087</u>
Net OPEB obligation end of year	<u><u>\$ 24,168</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed nothing to the medical plan. Plan members eligible for benefits contributed nothing to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 8,000	0.0%	\$ 8,000
2011	8,087	0.0%	\$ 16,087
2012	8,081	0.0%	\$ 24,168

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$88,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$88,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3.3 million and the ratio of UAAL to covered payroll was 2.7%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced .5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP-2000 Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$175,344 adjusting entry to the cash basis financial statements.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2012, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	
Gifted and Talented	\$ 65,065
Returning dropout and dropout prevention program	37,876
Teacher salary supplement	75,903
Statewide voluntary preschool	72,938
Educator quality, professional development	3,631
	<u>\$ 255,413</u>

Note 12. Pending Litigation

At June 30, 2012, the District was involved in a case of pending litigation. It is difficult to estimate the outcome of the litigation and the potential damages involved. Therefore, no liability for potential payments has been included in the financial statements.

Note 13. Subsequent Event

During the year ending June 30, 2013, the District will be constructing a building containing a Safe Room. Part of the project will be financed with funds from Federal Emergency Management Agency (FEMA), along with District funds. The project is expected to begin in August 2012 and be completed in the spring of 2013. The total cost of the project is estimated at \$1.5 million with approximately \$1 million coming from FEMA and the remaining \$500,000 to be District monies.

Note 14. New Governmental Accounting Standards Board (GASB) Statements

As of June 30, 2012, the GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnerships. Specifically, this Statement improves financial reporting by establishing recognition, measurement and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for governmental financial reporting entities by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the

- criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
 - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
 - GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources,

according to the definitions in CON4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

- GASB Statement No. 66, *Technical Corrections – 2012*, issued April 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (a) operating lease payments that vary from a straight-line basis; (b) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (c) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases* and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statements also requires the presentation of new information about annual money-weighted rates of return

in the notes to the financial statements and in 10-year required supplementary information schedules.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the District beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Required Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2012**

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 3,778,414	\$ 261,006	\$4,039,420	\$4,028,797	\$4,028,797	\$ 10,623
State sources	2,698,260	34,136	2,732,396	2,815,963	2,815,963	(83,567)
Federal sources	289,971	118,164	408,135	211,000	211,000	197,135
Total revenues	<u>6,766,645</u>	<u>413,306</u>	<u>7,179,951</u>	<u>7,055,760</u>	<u>7,055,760</u>	<u>124,191</u>
Expenditures/Expenses						
Instruction	4,016,704	3,297	4,020,001	4,168,775	4,168,775	148,774
Support services	1,652,707	-	1,652,707	1,653,415	1,653,415	708
Non-instructional programs	2,493	392,268	394,761	428,000	428,000	33,239
Other expenditures	1,573,036	-	1,573,036	676,177	1,650,000	76,964
Total expenditures/expenses	<u>7,244,940</u>	<u>395,565</u>	<u>7,640,505</u>	<u>6,926,367</u>	<u>7,900,190</u>	<u>259,685</u>
Excess (deficiency) of revenues over (under)	(478,295)	17,741	(460,554)	129,393	(844,430)	383,876
expenditures/expenses						
Net other financing sources	<u>775,540</u>	-	<u>775,540</u>	-	-	<u>775,540</u>
Net change in fund balance	297,245	17,741	314,986	129,393	(844,430)	1,159,416
Balance, beginning of year	602,078	320,112	922,190	815,337	815,337	106,853
Balance, end of year	<u>\$ 899,323</u>	<u>\$ 337,853</u>	<u>\$1,237,176</u>	<u>\$ 944,730</u>	<u>\$ (29,093)</u>	<u>\$1,266,269</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures or expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing expenditures by \$973,823.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 88,000	\$ 88,000	\$ -	\$3,092,932	2.8%
2011	July 1, 2009	-	88,000	88,000	-	3,138,212	2.8%
2012	July 1, 2009		88,000	88,000	-	3,286,282	2.7%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Student</u>	<u>Management</u>	<u>Statewide</u>	<u>Physical</u>	
	<u>Activity</u>	<u>Levy</u>	<u>Sales,</u>	<u>Plant and</u>	
			<u>Services</u>	<u>Equipment</u>	<u>Total</u>
			<u>and Use Tax</u>	<u>Levy</u>	
Assets					
Cash and pooled investments	\$130,340	\$ 31,089	\$ 380	\$ 16,554	\$178,363
Receivables					
Property tax					
Delinquent	-	-	-	261	261
Succeeding year	-	122,860	-	35,148	158,008
Accounts receivable	-	1,024	-	2	1,026
Due from other governments	-	-	64,817	-	64,817
Total assets	<u>\$130,340</u>	<u>\$154,973</u>	<u>\$ 65,197</u>	<u>\$ 51,965</u>	<u>\$402,475</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,040	\$ -	\$ 2,032	\$ 2,481	\$ 5,553
Deferred revenue					
Succeeding year property tax	-	122,860	-	35,148	158,008
Total liabilities	<u>1,040</u>	<u>122,860</u>	<u>2,032</u>	<u>37,629</u>	<u>163,561</u>
Fund balances					
Restricted for					
Student activities	129,300	-	-	-	129,300
Management levy purposes	-	32,113	-	-	32,113
School infrastructure	-	-	63,165	-	63,165
Physical plant and equipment	-	-	-	14,336	14,336
Total fund balances	<u>129,300</u>	<u>32,113</u>	<u>63,165</u>	<u>14,336</u>	<u>238,914</u>
Total liabilities and fund balances	<u>\$130,340</u>	<u>\$154,973</u>	<u>\$ 65,197</u>	<u>\$ 51,965</u>	<u>\$402,475</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

Schedule 2

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Student</u>	<u>Management</u>	<u>Statewide</u>	<u>Physical</u>	
	<u>Activity</u>	<u>Levy</u>	<u>Sales,</u>	<u>Plant and</u>	
			<u>Services</u>	<u>Equipment</u>	<u>Total</u>
			<u>and Use Tax</u>	<u>Levy</u>	
Revenues					
Local sources					
Local taxes	\$ -	\$130,083	\$ 396,686	\$ 34,403	\$ 561,172
Other	279,381	117	465	265	280,228
State sources	-	103	5,442	27	5,572
Federal sources	-	-	40,818	-	40,818
Total revenues	<u>279,381</u>	<u>130,303</u>	<u>443,411</u>	<u>34,695</u>	<u>887,790</u>
Expenditures					
Current					
Instruction					
Regular	-	31,021	-	-	31,021
Special	-	4,311	-	-	4,311
Other	255,431	1,462	-	-	256,893
Total instruction	<u>255,431</u>	<u>36,794</u>	<u>-</u>	<u>-</u>	<u>292,225</u>
Support services					
Student	-	221	-	-	221
Instructional staff	-	933	-	-	933
Administration	-	15,473	-	-	15,473
Operation and maintenance of plant	-	27,858	-	10,134	37,992
Transportation	-	15,510	22,983	-	38,493
Total support services	<u>-</u>	<u>59,995</u>	<u>22,983</u>	<u>10,134</u>	<u>93,112</u>
Non-instructional programs	<u>-</u>	<u>2,493</u>	<u>-</u>	<u>-</u>	<u>2,493</u>
Other expenditures					
Facilities acquisition	-	-	209,579	22,904	232,483
Total expenditures	<u>255,431</u>	<u>99,282</u>	<u>232,562</u>	<u>33,038</u>	<u>620,313</u>
Excess of revenues over expenditures	23,950	31,021	210,849	1,657	267,477
Other financing (uses)					
Interfund operating transfers (out)	-	-	(282,390)	-	(282,390)
Net change in fund balances	23,950	31,021	(71,541)	1,657	(14,913)
Fund balances, beginning of year	105,350	1,092	134,706	12,679	253,827
Fund balances, end of year	<u>\$129,300</u>	<u>\$ 32,113</u>	<u>\$ 63,165</u>	<u>\$ 14,336</u>	<u>\$ 238,914</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2012

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 15,288	\$ 109,332	\$ 111,356	\$ 3,481	\$ 16,745
Class of:					
2010	41	-	-	340	381
2012	3,841	1,351	5,084	-	108
2013	155	8,129	6,878	175	1,581
2014	398	-	-	-	398
2015	1,047	166	-	-	1,213
2016	877	166	-	-	1,043
2017	955	-	305	-	650
2018	341	2,285	1,512	(340)	774
Playground equipment fund	11,429	-	288	-	11,141
Book clubs	1,414	2,650	1,999	-	2,065
Book fair	213	3,491	3,501	-	203
Jump Rope for Heart	726	795	795	-	726
Kindergarten workshop	62	-	-	-	62
Elementary school store	254	518	384	-	388
Speech	-	-	2,379	2,379	-
National Honor Society	448	-	199	-	249
Drama	1,489	5,799	3,798	-	3,490
Cheerleaders	277	2,640	2,039	-	878
Volleyball camp	2,295	5,628	6,348	-	1,575
SCI program	61	-	-	-	61
S.A.D.D.	441	-	63	-	378
Math/Science	217	-	-	-	217
High school student council	846	3,439	3,728	-	557
Jr high student council	5,604	4,481	4,658	-	5,427
Boys basketball camp	9,147	32,544	16,639	(407)	24,645
Girls basketball camp	2,960	2,591	3,681	-	1,870
Football camp	2,467	9,914	9,318	-	3,063
Baseball camp	1,014	13,690	8,234	(1,736)	4,734
Soccer camp	318	1,157	986	-	489
Softball camp	1,116	634	125	-	1,625
Golf camp	521	294	205	(610)	-

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2012

Schedule 3

Account	Balance, End of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Band	\$ 1,233	\$ 3,062	\$ 2,830	\$ -	\$ 1,465
Vocal music	274	1,000	-	-	1,274
Girls Track Camp	180	5,819	3,653	(571)	1,775
Cross Country Camp	3	787	765	-	25
Swing choir	8,082	25,832	24,720	(5,530)	3,664
Music trip	-	-	-	5,373	5,373
High school pop	1,827	6,623	7,316	(175)	959
School store	385	25	21	-	389
Seniors, Inc.	544	-	-	-	544
Shop	299	417	215	-	501
FHA	864	157	126	-	895
Mass media	362	185	139	-	408
Yearbook	14,567	18,203	16,910	-	15,860
Student pictures	4,840	4,483	4,234	-	5,089
Interest	<u>5,628</u>	<u>1,094</u>	<u>-</u>	<u>(2,379)</u>	<u>4,343</u>
Totals	<u>\$ 105,350</u>	<u>\$ 279,381</u>	<u>\$ 255,431</u>	<u>\$ -</u>	<u>\$ 129,300</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Nine Years

Schedule 4

	Modified Accrual Basis								
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues									
Local sources									
Local tax	\$2,405,469	\$1,659,508	\$2,249,708	\$2,233,216	\$2,024,587	\$1,953,149	\$1,832,358	\$1,780,361	\$1,793,022
Tuition	1,026,355	966,172	911,539	845,859	767,684	781,249	643,369	678,983	630,644
Other	346,590	89,192	317,562	612,614	481,091	425,441	344,940	417,235	261,089
Intermediate sources	-	-	-	-	-	-	-	-	14,812
State sources	2,698,260	2,639,034	2,284,658	2,501,373	2,315,717	2,117,637	1,961,839	1,916,794	1,737,471
Federal sources	289,971	192,685	332,164	200,385	96,700	132,810	106,887	124,608	107,508
Total revenues	<u>\$6,766,645</u>	<u>\$5,546,591</u>	<u>\$6,095,631</u>	<u>\$6,393,447</u>	<u>\$5,685,779</u>	<u>\$5,410,286</u>	<u>\$4,889,393</u>	<u>\$4,917,981</u>	<u>\$4,544,546</u>
Expenditures									
Current									
Instruction									
Regular	\$2,553,472	\$2,397,556	\$2,214,875	\$2,235,011	\$2,036,743	\$2,086,631	\$1,865,099	\$1,889,528	\$1,887,401
Special	546,587	482,505	508,345	605,173	517,915	448,713	420,957	363,474	434,193
Other	916,645	649,798	860,385	868,077	813,557	659,862	685,825	731,195	474,810
Support services									
Student	85,712	75,391	95,210	100,793	47,818	48,862	52,108	76,134	60,415
Instructional staff	203,136	143,759	149,623	136,390	94,265	91,944	84,790	106,076	67,008
Administration	587,330	573,839	651,705	720,378	745,808	757,273	658,129	534,728	464,840
Operation and maintenance of plant	468,489	368,331	377,049	446,315	409,666	411,073	402,703	382,867	359,174
Transportation	308,040	246,467	310,966	233,533	237,115	255,363	245,424	226,894	201,758
Central support services	-	-	-	-	-	-	-	-	479
Non-instructional programs	2,493	-	2,769	-	6,000	2,428	2,417	104,342	4,968
Other expenditures									
Facilities acquisition	232,483	-	114,056	135,013	1,263,233	264,709	99,475	361,119	152,193
Long-term debt									
Principal	1,060,000	-	290,000	350,000	340,000	390,000	370,000	315,000	332,512
Interest and other charges	105,209	-	108,658	121,204	133,813	151,306	150,857	121,852	137,185
AEA flowthrough	175,344	192,325	187,870	166,971	148,917	143,392	129,431	126,367	126,589
Total expenditures	<u>\$7,244,940</u>	<u>\$5,129,971</u>	<u>\$5,871,511</u>	<u>\$6,118,858</u>	<u>\$6,794,850</u>	<u>\$5,711,556</u>	<u>\$5,167,215</u>	<u>\$5,339,576</u>	<u>\$4,703,525</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Danville Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 8, 2013. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Danville Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Danville Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Danville Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Danville Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be

prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items A, B and C to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danville Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Danville Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Danville Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Danville Community School District and other parties to whom Danville Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Danville Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 8, 2013

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2012

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We have developed an action plan to improve internal controls and the segregation of duties beginning in the fiscal year ending June 30, 2012.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2012

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

- C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. Cash and accounts payable in the Debt Service Fund were understated by \$15,490 because the issuance costs on the refunding bonds was incorrectly recorded as a cash expenditure instead of an accounts payable. However, these misstatements did not affect the ending fund balance of the Debt Service Fund.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide more oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2012 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2012

3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board. However, it was noted that the minutes were not always made available to the publisher within fourteen days of the board meeting and the District did not have proof of publication for all minutes.

Recommendation - The District should ensure that all minutes are made available to the publisher within the time constraints set out in Chapter 279.35 of the Code of Iowa and that proof of publication be received and maintained for all minutes publications.

Response - We will maintain proof of publication from the publisher for all minutes and ensure that the minutes of all board meetings be made available to the publisher within fourteen days of the board meeting, as required by the Code of Iowa.

Conclusion - Response accepted.

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2012

Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 134,706
Revenues		
Statewide sales and services tax revenue	\$ 396,686	
Other local revenues	465	
State revenues	5,442	
Federal revenues	<u>40,818</u>	443,411
Expenditures/transfers out		
School infrastructure		
School infrastructure construction	\$ 209,579	
Equipment	22,983	
Debt service for school infrastructure		
Revenue debt	<u>282,390</u>	<u>514,952</u>
Ending balance		<u>\$ 63,165</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

13. Student Activity Fund - It was noted that transfers were made at the end of the fiscal year to move monies from one account to another simply to eliminate deficits in individual accounts.

Recommendation - Each account within the Student Activity Fund is required to report the revenues and expenditures of the particular club, organization or activity. Revenues received by each club, organization or activity are to be used to support the activities of that particular club, organization or activity. Each account should be self-supporting and those accounts with deficit balances should investigate alternatives to raise revenue or reduce expenditures.

Response - We will cease the practice of transferring funds between accounts to eliminate deficits in individual accounts and review the revenues and expenditures of accounts that do not support themselves.

Conclusion - Response accepted.

DANVILLE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2012

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant